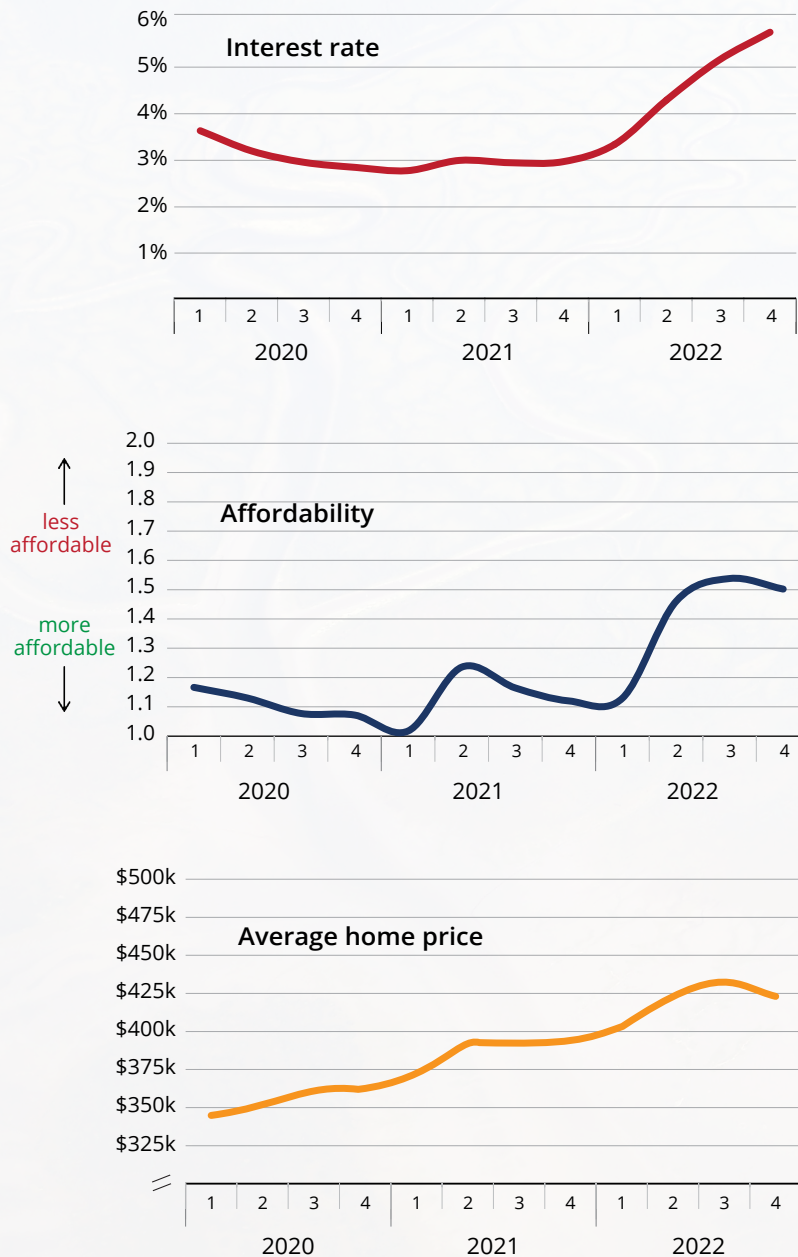


Housing market shifts in 2022

Sharp mortgage interest rate rise dents affordability

Biggest changes came in 2022 with rate rise



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

By ROB KREIGER

Early 2022 looked like a continuation of the previous two years for Alaska's housing market. In the first quarter, sales prices continued to rise, inventory remained limited, and interest rates — although above their record lows of the year before — were still historically low.

Rate increases accelerated in the second quarter, though, and by the end of 2022, mortgage rates had jumped by 240 basis points,¹ an unprecedented increase in such a short time, to their highest levels since 2008.

The rapid and dramatic rise in rates made housing far less affordable than in 2020 and 2021. At the same time, home prices remained high, driven in part by elevated but unmet demand for new construction.

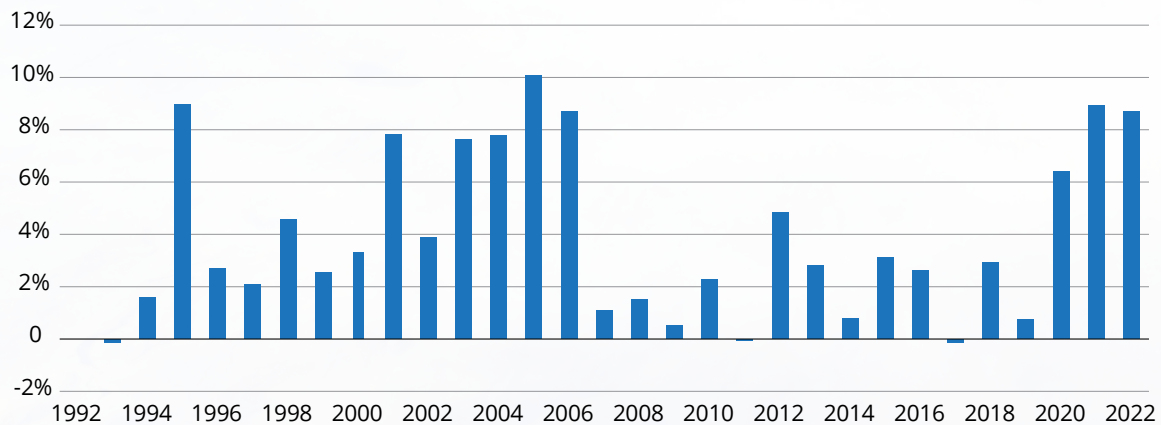
While Alaska's heated market showed signs of cooling toward the end of 2022, a significant price drop appears unlikely this year. The factors that kept availability low over the last few years — which this article will explain after looking at the numbers in detail — may stabilize the market, causing prices to level off rather than drop.

Interest rates soared in 2022

Mortgage interest rates

¹A basis point is one one-hundredth of a percentage point.

Average home price went up again in 2022, but by less than 2021



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

averaged 4.63 percent in 2022, up from 2.93 the prior year, which was a record annual low.

Rates jumped well past 4 percent in the second quarter of 2022 — the downstream effect of the Federal Reserve raising interest rates to fight inflation — which was their highest level since 2019. They continued to climb in the second half of the year, to an average of 5.75 percent by the fourth quarter. The rapid ascent from a record low to a 15-year high was unprecedented in this data set, which goes back to 1992.

While low rates in 2020 and 2021 had kept housing

affordable despite large increases in the average sales price, the rate jump immediately rendered housing far less affordable in all parts of Alaska.

Low interest rates had kept housing affordable for years

Affordability is the average earner's ability to pay the principal and interest on an average-priced home at the average interest rate. (See the sidebar below for more on how we calculate the index.) An index value of 1.0 means a single person's average

About the affordability index

The Alaska Affordability Index represents the number of average earners needed to afford an average mortgage in their area. The lower the index value, the more affordable a house is. The index value is an area's estimated average monthly mortgage payment for a 30-year conventional mortgage with a fixed interest rate on a single-family house, divided by the average monthly wage.

The average wage is based on what employers report to the Alaska Department of Labor and Workforce Development when they submit their unemployment insurance tax reports each quarter. The estimated average monthly mortgage payment is based on the average sales price and fixed interest rate that mortgage lenders report to the department each quarter in the Survey of Alaska's Lenders, which we conduct with the Alaska Housing Finance Corporation.

Earners needed to afford average home by Alaska area, 2019-2022

Area	2019	2020	2021	2022
Bethel	1.70	1.55	1.65	2.21
Juneau	1.60	1.45	1.41	1.78
Matanuska-Susitna Borough	1.44	1.28	1.36	1.74
Ketchikan Gateway Borough	1.56	1.38	1.43	1.74
Kodiak	1.60	1.41	1.34	1.60
Anchorage	1.35	1.21	1.21	1.48
Kenai Peninsula Borough	1.15	1.02	1.07	1.42
Statewide	1.24	1.11	1.13	1.41
Mat-Su house, Anc pay	1.07	0.96	1.02	1.33
Fairbanks N. Star Borough	1.11	0.99	1.00	1.24
Rest of Alaska	0.97	0.94	1.02	1.09

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

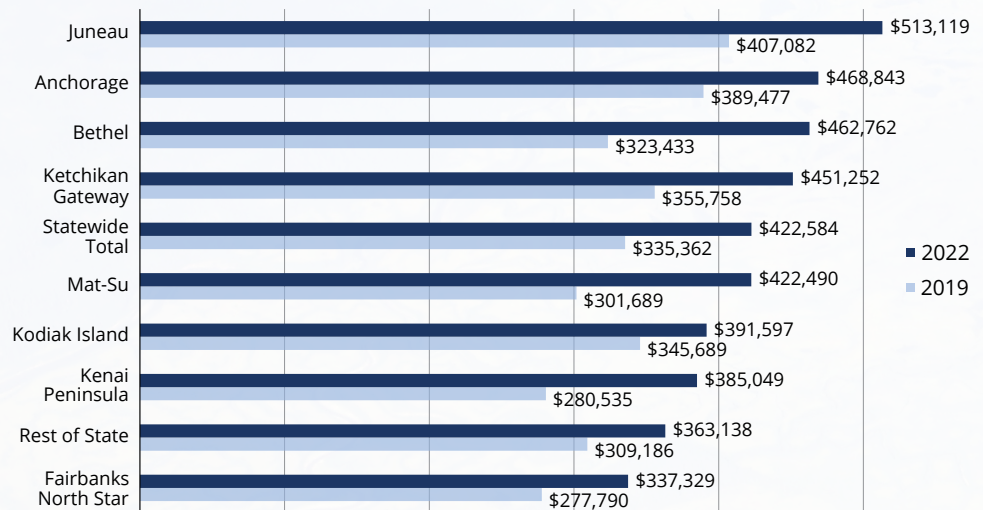
wages can cover the mortgage, with increases in the index showing more monthly wages will be required.

Housing was at its most affordable since at least 1992 in 2020 and 2021 because of higher wages plus low interest rates. Even with sales prices hitting new heights, monthly payments on the average loan remained manageable.

In the first quarter of 2022, the index was at 1.13 statewide, meaning one person's average wages were almost enough to afford the average-priced single-family home. Less than a year later, a mortgage required one person's wages plus another half — the sharpest-ever decrease in affordability. The interest rate rise pushed Alaska housing to its least affordable level since 2010.

This phenomenon wasn't unique to Alaska. The National Association of Realtors' Housing Affordability Index, though calculated differently, uses similar inputs such as income, sales price, and interest rate and it mirrored Alaska's trends. In October 2022, rates averaged nearly 7 percent and housing hit its least affordable level nationally since at least 1995.

Average home sales price by area, 2019 and 2022



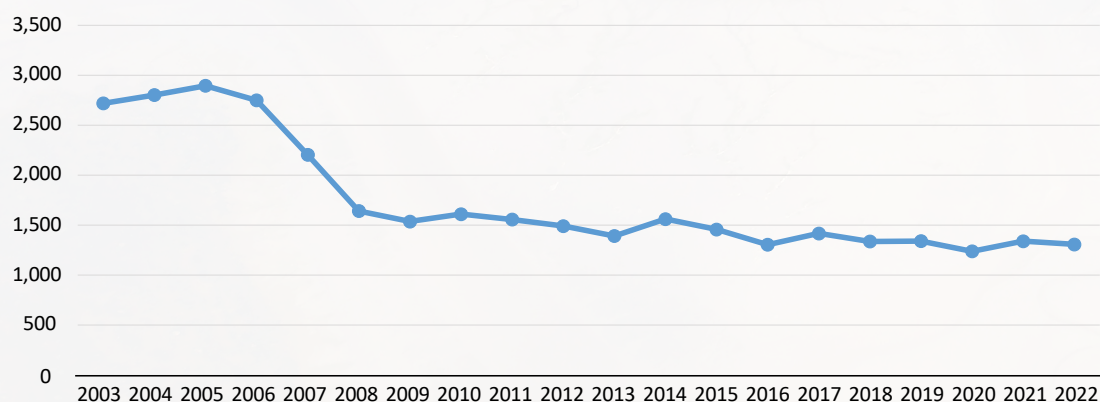
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Housing became less affordable in all parts of Alaska in 2022

Affordability has always varied around the state, with Bethel and Juneau typically the least affordable and Kenai and Fairbanks the most. An Anchorage earner owning a home in the Matanuska-Susitna Borough has also been one of the most affordable scenarios.

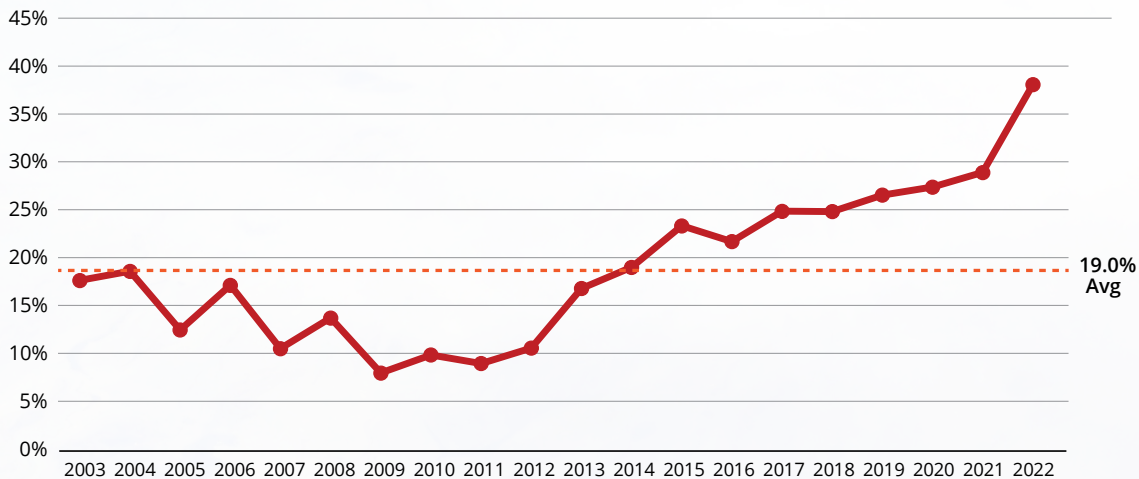
While these rankings held in 2022, all areas became less affordable than they had been before COVID.

Despite demand, new home construction at a near-low in 2022



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Premium paid for new home construction hit a high in 2022



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Bethel was the least affordable, with an index value exceeding two typical monthly salaries. Bethel's remoteness, high home prices, and lower wages were all factors.

Juneau was second at 1.78. In addition to higher rates, the average sales price in Juneau — the state's highest at more than \$500,000 — weighed on its affordability.

Fairbanks and Kenai remained the most affordable, although their index values also rose significantly, and so did the index for working in Anchorage and living in Mat-Su, although it remained a comparatively attractive option.

Average home prices remain high

Sales prices continued to rise in 2022 but at a slightly slower pace than the year before. The average Alaska home cost \$422,584, up 8.7 percent. While that was a large increase historically, it was smaller than in 2021.

Prices didn't fall despite the jump in interest rates, even in the second half of 2022 as the rate rise steepened and sales slowed. Then, prices fell 2.5 percent in the last quarter with the typical winter slowdown but remained above the last quarter of 2021's prices.

Every area's average price rose significantly over the past three years. Since 2019 — the year before the market began to tighten — the percent increase in the average home price ranged from 43 percent

more in Bethel to 13 percent in Kodiak.

Juneau's \$513,119 was followed by Anchorage at \$468,843. Since 2019, prices in Juneau and Anchorage have jumped 26 and 20 percent, respectively.

At the low end, Fairbanks' average home sales price was \$337,329, up 21.4 percent since 2019, and Kenai's 37 percent increase brought its average price to \$385,049.

These massive increases might seem remarkable at face value, but the data don't show whether the increases are appreciation or changes in the types of properties sold. For example, we can't tell whether houses are larger or on bigger tracts of land. We also don't know whether sales prices in different price ranges are changing at the same rates.

Demand for new construction is strong but largely unmet

One factor we can pin down in the rising average price is that buyers are paying significantly more for new construction — that is, a home that was either built in the last year or has never been occupied.

Since 2003, we've been able to distinguish the sales of new homes from existing construction. Historically, about 13 percent of yearly sales are for new homes, and that average roughly held through 2022. However, the 19 percent average premium buyers have paid for new construction historically

jumped to over 38 percent in 2022. The premium is how much more new homes cost, on average, than the average for existing homes.

The average sales price for new construction in 2022 was \$560,395 and for existing homes was \$405,610. The rates at which the average prices rose from 2019 also differed. The price of new construction rose 35 percent to existing homes' 24 percent.

In 2022 alone, new construction went up 14.5 percent, the most on record. For existing homes, it was 6.9 percent.

All of this suggests the demand for new homes has risen significantly over the past few years but supply has not kept up. Construction of single-family homes has been decreasing for years and hit a nadir in 2020. As fewer homes have been built over time, the premium for new construction has gone up.

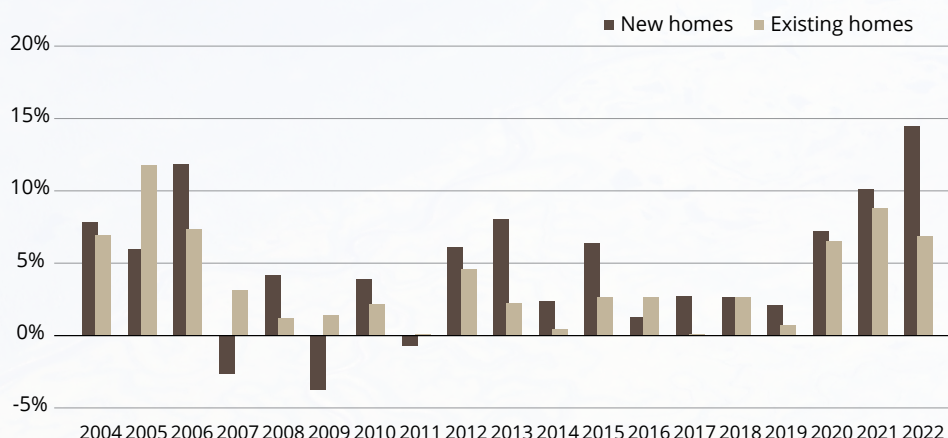
While the decrease in new construction during the pandemic stemmed from supply chain problems that made materials expensive and hard to get, building remained low in 2022 with worker shortages despite the supply chain problems beginning to resolve. Still, even though materials and workers have been factors in recent years, new construction in Alaska has trended downward since 2005.

Those who buy new appear to be less sensitive to rates

The loan-to-value ratio — the percentage of the purchase price that was borrowed — is lower for new homes than for existing construction, suggesting those who buy new have more money to put down. In 2022, the new construction loan-to-value ratio was historically low, showing those buyers had more cash than usual. Ratios for existing homes were also historically low, but not to the same degree.

One possibility is that more buyers of new homes are upgrading, using proceeds from the sale of

Prices for new homes rose faster than for existing



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

their existing homes to make a larger down payment. Last year's buyers may have been less sensitive to rising interest rates, too, because of that additional cushion.

The market may cool off, but a price collapse is unlikely

Alaska's housing market lacks the conditions that would typically tank house prices. For example, there was no construction run-up before 2022 that would have created a supply glut as rates rose and demand softened, nor was there a flood of houses on the market by panicked sellers worried about missing out on record-high sales prices.

That's not to say we know housing prices won't decrease. Less demand could cause them to drop, but it's more likely that sales will cool down and prices will level off in the near term. The reasons lie in demographic shifts, limited construction, and homeowners staying put rather than losing a low rate on their existing mortgage.

Factors keeping the market tight

In previous *Trends* articles, we noted how Alaska's growing senior population — which has not grown because more seniors are moving here, but because our existing population is aging — has limited the number of homes for sale. This generation is larger than previous generations and they are also

staying in their homes longer, meaning a sizable percentage of Alaska's housing stock may be occupied by a segment of the population with no motivation to sell.

This might have tightened inventory three years ago, but it appears to be a stabilizing factor now. In other words, if this large group of seniors stays in Alaska — and people 65 and over are less likely to move in general — that would mitigate any broader drive to hurry up and sell to take advantage of high sales prices, keeping the supply lower.

Millennials, born between the early 1980s and the mid-1990s, are another large generation in Alaska with a growing influence on the housing market. They have recently aged into their prime home-buying years.

Rising rates and diminished affordability have affected first-time buyers the most. Although some have been priced out of the market, any downward movement in interest rates can be enough to bring potential buyers off the sidelines. However, they may not be able to borrow as much, and upcoming buyers will be less likely to bid prices up than we've seen over the past few years. To the extent bidding wars have driven some of the recent price increases, they probably won't in the near future.

Another factor is home-building not keeping up with demand. As noted earlier, in 2020 and 2021, the pandemic further limited new construction as supply chain issues made materials more expensive and harder to get. While supply chain problems have partially resolved, the lack of available workers will hamper new construction even if demand remains high.

Sales will likely cool and prices level off. The reasons lie in demographic shifts, limited construction, and homeowners staying put.

An additional group may be increasingly less likely to sell, which is a new twist with rising interest rates that could further limit inventory. Those who bought a house within the past several years might be unlikely to give up the low interest rate on their existing mortgage, especially if prices remain where they are, and some will also be less able to sell and move. Without significant equity, moving to a new or larger home will be much more expensive in the current environment.

Migration will be a big influence

Migration is something to watch because it could play a prominent role in the housing market's trajectory.

In 2022, Alaska marked 10 consecutive years of negative net migration, meaning more people have left the state each year than moved in. The decline in people moving to the state has been a bigger driver than the increase in the number of people leaving.

The imbalance this scenario could create, if it continues, is probably the largest threat to home price stability. If the number of people leaving grows and they are homeowners or of home-buying age, for example, that would increase the housing supply even without more new construction. At the same time, it would mean fewer people wanting to buy houses.

[Click here for more on population and migration.](#)

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